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Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W
---------- 108624
O 151554Z SEP 75 ZFF4
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC IMMEDIATE 4445

S E C R E T SECTION 1 OF 2 MOSCOW 13131

NODIS CHEROKEE

FROM UNDER SECRETARY ROBINSON

E.O. 11652 GDS
TAGS: OVIP (ROBINSON, CHARLES W.)
SUBJ SOVIET GRAIN SALE

REF: A. MOSCOW 13046; B. STATE 218809

1. BEGIN SUMMARY. I HAVE JUST CONCLUDED A THREE AND ONE-HALF HOUR MEETING WITH MINISTER PATOLICHEV ON THE GRAIN/OIL NEGOTIATIONS. THE MEETING WAS ALSO ATTENDED BY:
SOVIET SIDE: FIRST DEPUTY MINISTER KUZ'MIN, GORDEYEV AND GORBUNOV OF FOREIGN TRADE MINISTRY
AMERICAN SIDE: CHARGE MATLOCK, HINTON, NOVOTNEY, NILES.

2. IN SUMMARY, WE ARE NOW IN SUBSTANTIAL ACCORD ON THE BASIC PROVISIONS TO BE INCLUDED IN A FIVE-YEAR GRAIN SALES AGREEMENT. PATOLICHEV HAS ACCEPTED OUR PROPOSAL THAT WE RETURN TO WASHINGTON TOMORROW, TUESDAY, SEPTEMBER 16, TO REVIEW TECHNICAL QUESTIONS YET TO BE RESOLVED. WE ARE TO PREPARE A DRAFT COVERING THE ENTIRE AGREEMENT, WHICH WILL BE SUBMITTED TO PATOLICHEV ON OUR RETURN TO MOSCOW IN APPROXIMATELY ONE WEEK. WE ALSO FINALLY AGREED ON PARALLEL DISCUSSIONS ON OIL AS WELL AS GRAIN WITH THEIR RELUCTANT ACCEPTANCE BASED ON THEIR UNDERSTANDING OF OUR NEED FOR A POLITICAL LINKAGE. PATOLICHEV'S ACCEPTANCE OF THIS CONCESSION IS BASED ON THE ASSUMPTION THAT WE WILL NOT MAKE AN OFFICIAL PUBLIC ANNOUNCEMENT OF DETAILED
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NEGOTIATIONS ON THE OIL QUESTION. HE DOES NOT LIKE BUT

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SEEMS TO ACCEPT GENERAL DISCLOSURE OF PRELIMINARY DIS-
CUSSIONS AS DESCRIBED BY PRESIDENT FORD IN RECENT PRESS
INTERVIEWS. END SUMMARY.

3. IN OUR MEETING WITH MINISTER PATOLICHEV THIS MORNING,
I FIRST OUTLINED OUR POSITION ON THE LONG-TERM GRAIN
AGREEMENT. THIS WAS IN ACCORDANCE WITH THE POSITION WE
SUGGESTED IN REFTEL A, MODIFIED BY YOUR RESPONSE, REFTEL B.
IN SUMMARY, OUR PRESENT POSITION IS AS FOLLOWS:

A. A FIVE-YEAR AGREEMENT COMMENCING OCOTBER 1, 1976

B. BASE QUANTITY 5 MILLION METRIC TONS PER YEAR,
50 PERCENT CORN/50 PERCENT WHEAT, OPTIONAL TONNAGE
3 MILLION METRIC TONS ANNUALLY TO BE DECLARED IN ADVANCE
BY THE USSR WITH 50 PERCENT CORN/50 PERCENT WHEAT.
(COMMENT: WE REGISTERED OPPOSITION TO THE SOVIETS' POSITION
THAT THEY COULD NOT MAKE THIS OPTIONAL TONNAGE ELECTION
IN ADVANCE OF OUR CROP YEAR AND THEIR RELUCTANCE TO
ACCEPT A BROADER U.S. EXCAPE CLAUSE WITH REGARD TO
THE OPTIONAL TONNAGE IN THE EVENT OF AN UNSATISFACTORY
U.S. CROP RESULT. ACCORDINGLY, WE SUGGESTED THE
POSSIBLITY OF OTHER FORMULAS SUCH AS 6 FIRM, WITH 2
OPTIONAL, BUT DID NOT PURSUE THIS TO ANY CONCLUSION.)

C. SHIPMENTS TO BE EVENLY SPACED OVER EACH 12-MONTH
PERIOD.

D. PURCHASES TO BE EVENLY SPACED MONTHLY OR
QUARTERLY IN PROPER RELATIONSHIP TO THE SHIPPING SCHEDULE.

E. SUPPLEMENTAL ANNUAL PURCHASES AS REQURED BY
THE SOVIETS TO BE DISCUSSED BY THE PARTIES.

F. THE PROVISIONS FOR USE OF US-FLAG VESSELS FOR
AT LEAST ONE-THIRD OF TOTAL SHIPMENTS AS PROVIDED FOR
IN THE MARITIME AGREEMENT WOULD APPLY TO GRAIN DELIVERIES
UNDER THIS CONTRACT.

G. AGREEMENT WOULD CONTAIN A PROTECTION AGAINST
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SOVIET RE-EXPORT OF GRAIN PURCHASED UNDER THIS AGREEMENT.

H. THE CONTRACT WOULD PROVIDE FOR SEMI-ANNUAL
EXCHANGE OF FORWARD ESTIMATES ON GRAIN PRODUCTION AND
REQUIREMENTS IN BOTH COUNTRIES. (COMMENT: I POINTED
OUT THE IMPORTANCE OF THIS PROVISION AND THE NEED TO
ENSURE THAT THIS IS EFFECTIVE IN PRACTICE, PARTICULARLY
IN CONNECTION WITH OUR COMMITMENT TO CONSIDER ADDITIONAL

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QUANTITIES WHICH THE SOVIETS MAY REQUIRE DURING THE COURSE OF THIS CONTRACT.

I. AN ESCAPE CLAUSE PROVISION WOULD BE INCLUDED TO PROTECT THE U.S. IN THE EVENT OF A CROP DISASTER, BUT THIS WOULD REFLECT THE SPECIAL POSTION OF THE SOVIETS AS A FIRM LONG-TERM GRAIN BUYER.

J. OTHER MISCELLANEOUS PROVISIONS REQUIRED TO COMPLETE THE OVERALL UNDERSTANDING.

4. ALTHOUGH THE SOVIETS ACCEPT IN PRINCIPLE THE FORE-GOING PROVISIONS, PATOLICHEV DID RAISE THE FOLLOWING QUESTIONS:

A. WITHE REGARD TO SHIPPING SCHEDULES AND ARRANGE-MENTS, PATOLICHEV INDICATED THAT HE DID NOT KNOW WHAT DETAILED PROBLEMS WERE INVOLVED AND THIS WOULD HAVE TO BE HANDLED BY THE MINISTER OF THE MERCHANT MARINE. HE DID INDICATE THAT HE ANTICIPATED A SATISFACTORY SOLUTION OF THESE ISSUES.

B. PATOLICHEV WAS CONCERNED AS TO WHO WOULD BE THE GRAIN SELLER ON THE U.S. SIDE. I POINTED OUT THAT THIS MATTER WOULD BE RESOLVED SHORTLY BUT THAT WE ANTICIPATED THAT THE INTERGOVERNMENTAL AGREEMENT WOULD MERELY ESTABLISH THE GUIDELINES WITHIN WHICH PRIVATE SECTOR GRAIN EXPORTERS WOULD BEGOTIATE FOR THE BUSINESS ON A COMPETITIVE BID BASIS. IT IS CLEAR THAT PATOLICHEV IS QUITE CONCERNED OVER THE POTENTIAL PROBLEM IN THIS AREA AND WILL PROBABLY SEEK PROTECTION AGAINST PRIVATE COMPANY PRICES AND OTHER TERMS ON GRAIN EXPORTS EXPLOITING HIS COMMITMENT TO PURCHASE FIXED TONNAGES.

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C. PATOLICHEV WAS CONCERNED AS TO HOW WE PROCEED FROM HERE IN THE DEVELOPMENT OF THE LEGAL CONTRACT FORM. IT WAS FINALLY AGREED THAT WE WOULD PREPARE A DRAFT IN WASHINGTON FOLLOWING THE BASIC OUTLINE ALREADY AGREED AND WOULD BE PREPARED TO SUBMIT THAT TO THE SOVIETS ON OUR RETURN TO MOSCOW ONE WEEK HENCE. WE CAN EXPECT THE SOVIETS TO HAVE PREPARED ONE OF THEIR OWN.

5. PATOLICHEV CONTINUED TO RESIST OUR EFFORTS TO LINK OIL AND GRAIN IN THESE AGREEMENTS. HE IMPLIED THAT WE HAD VIOLATED OUR UNDERSTANDING WITH THE SOVIETS BY RELEASING ANY PUBLICITY REGARDING OIL NEGOTIATIONS. HE ACKNOWLEDGED THAT THIS WAS A MATTER OF POLITICAL IMPORTANCE IN THE U.S., BUT POINTED OUT IT WAS ALSO A

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MATTER OF GREAT POLITICAL IMPORTANCE TO THE USSR BOTH DOMESTICALLY AND EXTERNALLY. ON THIS POINT HE ARGUED THAT:

A. THERE IS MORE OIL PRODUCED IN THE U.S. THAN IN THE USSR. (COMMENT: THIS POINT COULD BE CONTESTED.)

B. THE USSR HAS RARELY SOLD OIL TO THE U.S. IN THE PAST AND ONLY DUE TO AN UNUSUAL COMBINATION OF CIRCUMSTANCES IN OCEAN FREIGHT MARKETS.

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FM AMEMBASSY MOSCOW
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FROM UNDER SECRETARY ROBINSON

C. USSR DOES NOT HAVE SURPLUS OIL AND IN FACT IS UNABLE TO SATISFY FULLY THE NEEDS OF SOCIALIST COUNTRIES.

D. THEY HAVE ONLY SOLD THE WESTERN WORLD IN THE PAST TO RELIEVE PAYMENT PROBLEMS.

E. FOR SOME TIME THEY HAVE BEEN PURCHASING OIL FROM IRAQ, SYRIA, LIBYA AND ALGERIA, AND HAVE ALSO HAD A TONNAGE EXCHANGE ARRANGEMENT WITH EGYPT.

F. IF THE WORLD LEARNS THAT THE USSR IS NEGOTIATING WITH THE U.S. FOR A LONG-TERM AGREEMENT ON OIL, THEY WILL FACE MANY DIFFICULT QUESTIONS BOTH INTERNALLY AND

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EXTERNALLY. IN FACT THESE QUESTIONS HAVE ALREADY ARISEN, PRESUMABLY AS A RESULT OF THE OFFICIAL STATEMENTS REGARDING AN OIL SWAP WHICH HAVE ORIGINATED IN THE U.S.

6. I COUNTERED PATOLICHEV'S STATEMENTS AS FOLLOWS:

A. WE RECOGNIZE THE IMPORTANCE THE SOVIETS ATTACHED TO THE CONFIDENTIALITY OF OIL NEGOTIATIONS.

B. WE HAVE RESPECTED THE SOVIETS' DESIRE TO AVOID OFFICIAL ANNOUNCEMENTS THAT SERIOUS NEGOTIATIONS ARE IN
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PROGRESS IN OIL. I POINTED OUT THAT UNDER OUR SYSTEM THERE WAS NO WAY THAT WE COULD AVOID THE QUESTION, IF ASKED BY THE PRESS, BUT THAT OUR STATEMENTS HAVE MERELY INDICATED THAT THIS IS A MATTER WE WOULD CONSIDER AND THAT VERY TENTATIVE DISCUSSIONS HAD TAKEN PLACE WITH REGARD TO THIS POSSIBILITY.

C. I ACKNOWLEDGED PATOLICHEV'S POSITION THAT GRAIN AND OIL WERE TWO SEPARATE SUBJECTS, AND AGREED THAT HE WAS CORRECT, FROM A TECHNICAL STANDPOINT. HOWEVER, FROM A U.S. POLITICAL STANDPOINT THERE WAS NO WAY THAT WE COULD DE-LINK THESE NEGOTIATIONS.

D. I STRESSED THE IMPORTANCE OF COMMENCING NEGOTIATIONS ON THE OIL AGREEMENT SO THAT GRAIN AND OIL WOULD IN FACT BE BEGOTIATED ON PARALLEL TRACKS.

E. I DID ACCEPT HIS VIEW THAT OIL WOULD BE A MORE COMPLICATED NEGOTIATION AND COULD TAKE LONGER TO CONCLUDE. HOWEVER, IN STATING THIS, I DID NOT IMPLY ANY DE-LINKING OF THE CONCLUSIONS.

7. AFTER CONTINUED DISCUSSIONOF OUR RESPECTIVE POSITIONS, WE FINALLY AGREED TO LINKING OF GRAIN AND OIL NEGOTIATIONS AS FOLLOWS:

A. GRAIN AND OIL ARE TO BE TREATED AS TWO DIFFERENT SUBJECTS TECHNICALLY, REQUIRING SOMEWHAT DIFFERENT NEGOTIATNG TEAMS.

B. WE WILL RECOMMEND THAT OUR ADMINISTRATION AVOID MAKING AN OFFICIAL PUBLIC PRONOUNCEMENT REGARDING THE OIL NEGOTIATIONS, ALTHOUGH WE INDICATED THAT THE TYPE OF STATEMENTS MADE TO DATE REGARDING TENTATIVE CONSIDERATION OF THIS POSSIBLITY WOULD UNDOUBTEDLY CONTINUE. (COMMENT: THE SOVIETS SEEMED TO HAVE ACCEPTED THIS, BUT FOREWARNED US THAT THEY MIGHT HAVE

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TO COUNTER PRONOUNCEMENTS ON OUR SIDE WITH A PRONOUNCE-
MENT ON THEIR SIDE INDICATING THAT ANY SUCH NEGOTIATION
ON OIL WAS MERELY A NORMAL SUBJECT ARISING WITHIN
STANDARD SOVIET TRADE PRACTICE.)
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C. NEGOTIATIONS ON OIL WOULD BE COMMENCED IMME-
DIATELY AND PROCEED IN PARALLEL WITH OUR DISCUSSIONS
ON GRAIN. A MEETING WAS SET FOR OIL NEGOTIATIONS TO
COMMENCE AT 6 P.M. THIS EVENING, WITH FIRST DEPUTY
MINISTER KUZ'MIN TO LEAD THE SOVIET NEGOTIATING TEAM.
ROBERT MONTGOMERY, LEGAL COUNSEL FOR FEA, WHO ARRIVED
LAST NIGHT WILL REPLACE NOVOTNEY (USDA) ON OUR SIDE.

D. WE WILL PURSUE THE OIL CONTRACT NEGOTIATIONS,
SEEKING MUTUAL BENEFITS FOR BOTH SIDES, RECOGNIZING
THE ESSENTIAL POLITICAL LINKAGE IN THE U.S.

8. WITH THE MEETING ON OIL THIS EVENING, WE WILL HAVE
CARRIED OUR GRAIN/OIL NEGOTIATIONS AS FAR AS SEEMS
ADVISABLE UNDER THE CIRCUMSTANCES. ACCORDINGLY, WE
WILL PLAN ON DEPARTING MOSCOW TOMORROW, TUESDAY,
SEPTEMBER 16 AT 1:25 P.M. ON PA 45, WITH SCHEDULED
ARRIVAL IN WASHINGTON AT ABOUT 9 P.M. TUESDAY NIGHT.
WE HAVE ASSURED PATOLICHEV THAT WE WILL PROCEED AS
RAPIDLY AS POSSIBLE TO RESOLVE THE REMAINING TECHNICAL
PROBLEMS IN CONNECTION WITH THE GRAIN AGREEMENT AND
PLAN TO RETURN TO MOSCOW IN ABOUT ONE WEEK WITH A
PROPOSED DRAFT AGREEMENT. WE WILL ALSO RENEW OUR EFFORTS
AT THAT TIME TO CONCLUDE AN OIL PURCHASE AGREEMENT,
CONDUCTING NEGOTIATIONS IN PARALLEL WITH OUR GRAIN TALKS.
THIS ARRANGEMENT APPEARED TO SATISFY PATOLICHEV, WHO
ASSURED US OF HIS FULL COOPERATION IN EFFORS TO BRING
THESE NEGOTIATIONS TO A SUCCESSFUL CONCLUSION.

9. IN A FINAL WRAP UP PATOLICHEV RAISED A QUESTION ABOUT
U.S. ADMINISTRATION'S CAPACITY TO CONCLUDE AND CARRY OUT
INTERNATIONAL AGREEMENTS SUCH AS THE PROPOSED GRAIN
AGREEMENT IN VIEW OF THE PAST HISTORY OF ADMINISTRATION/
CONGRESSIONAL RELATIONS.
MATLOCK

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SALES, PETROLEUM, NEGOTIATIONS, GRAINS, PROGRESS REPORTS, CAT-C, CHEROKEE 09/15/75
Control Number: n/a
Copy: SINGLE
Draft Date: 15 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW13131
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: P840083-1076, N750004-0367
From: MOSCOW
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1975/newtext/t19750952/aaaabtvh.tel
Line Count: 323
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: 75 MOSCOW 13046, 75 STATE 218809
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by ShawDG>; APPROVED <24 OCT 2003 by ElyME>
Review Markings:

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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOVIET GRAIN SALE
TAGS: OVIP, ETRD, EAGR, ENRG, US, UR, (ROBINSON, CHARLES W), (PATOLICHEV, NIKOLAY S)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006